RGGI Makes Some Changes, But Not the Overall Cap. Yet.

January 30, 2012 by Amy Boyd

The nine states still participating in the Regional Greenhouse Gas Initiative are getting ready for the first auction of RGGI's second compliance period, scheduled for March 14th. In the auction notice released last week, they announced 4 changes to the program, and analysts are predicting there are far more significant changes to come -- namely adjustments to the total emissions cap.

The first change: which we knew was coming; New Jersey is officially out. The second: the reserve price, the lowest price at which allowances may sell, has been increased by 4 cents to $1.93, in line with the Consumer Price Index. The third: although RGGI usually offers allowances from two different compliance periods for sale at each auction, March's auction will offer only 2012 allowances, raising some questions about RGGI's own view of its future past this compliance period's end in 2014. The fourth change: the participating states announced that they will retire 87 million of the allowances that went unsold during the 2009-2011 auctions, a move that may indicate the states' willingness to set the cap for 2012 below the earlier levels, to avoid such over-allocation of allowances in future years.

The original plan for the RGGI program, when it was introduced in 2008, was to set the emissions cap on large power plants in the Northeast at 188 million tons (estimated 2005 levels) through 2014, then lower the cap by 2.5% per year over the next four years, for a net change of 10%. But in the intervening years, emissions in the Northeast have declined significantly due to decreasing generation from higher-carbon dioxide sources such as fuel oil and coal, increasing generation from natural gas and renewable, carbon-free sources, and expanded energy efficiency programs -- many of which were paid for by funds collected by the states through the RGGI auctions. As a result, emissions are now far below the planned reductions already -- 2011 emissions were 34% below the cap, according to Environment Northeast's analysis released last week. As these changes in emissions are expected to be permanent, the RGGI cap would have to be lowered by a significant amount before the cap-and-trade program became the driving factor in carbon reductions.

The participating states are currently working on a planned comprehensive review of the RGGI program, with the most recent topics of discussion including evaluating the use of offsets and other cost-containment mechanisms in the future. While the participating states' willingness to retire the unsold allowances from the first compliance period may be a signal of their intentions to re-set the cap for the 2012-2014 compliance period as well, it remains to be seen whether the states will merely adjust the cap to reflect observed emission trends or try to create even further cuts in emissions.

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